To understand where the U.S. Economy is going, we need to understand where we have been...

- From 2008:1-2009:2, the worst recession since Great Depression, with a slow recovery from 2009:3-2013:1.
- **Historical Context**: How does the Recession we are recovering from compare to others in the last sixty years?
- In these first graphs, periods are dated by presidential terms to make it easier to relate to history: this does not assess responsibility for events outside our control.
Recession

- Housing bubble led to excessive construction, then housing crash led to financial crisis and big drop in residential investment and construction.
- Drop in residential investment spending not likely to bounce back quickly, but housing prices have turned around in hardest-hit states, and population growth means there is latent demand.
- Dramatic fall in home equity halted growth in consumption spending. Consumption is growing again, helping with recovery.
Balance Sheet Recession

• Financial institutions moved to cash & bonds, reducing lending in order to reduce portfolio risk.
• Many large producers facing damaged balance sheets and reduced consumer spending used their profits to reduce debt, not for hiring. Nonresidential investment has mostly recovered.
• Fiscal crisis in state & local governments due to long decline in tax revenues, led to continued decline in employment.
• A different kind of recession: recessions caused by financial crises are depressions, and are typically twice as deep, twice as long.

This was a Depression

• Depressions were common in U.S. before WWII: depressions occurred in 1837, 1873, 1893, 1907, and 1920-21; on average, these were much deeper and a year longer than other recessions.
• Central bank may be the lender of last resort, but government may become the borrower of last resort.
• Internationally, recessions caused by financial crises tend to be more severe, though fiscal intervention may reduce severity.
• These effects are long-lived: 7-10 years later, GDP is still down 10% or more.
Variability Stabilizing over Time

Deep Recession!

Slowing Growth

U.S. GDP Growth
Year over Year, Adjusted for Inflation and Population

Real GDP Growth Per Capita
Four-Year Average

U.S. Unemployment Rate

Highest Peak

Fastest Climb

Normal Decline

Eisenhower
Kennedy
Nixon
Ford
Carter
Reagan
Bush
Clinton
Bush II
Obama


0 2 4 6 8 10 12

8/2/2013
More is going on here...

In our quest for whom to blame, we have forgotten about the baby boom finally starting to retire.
An Aging Population ...

- Explains the decline in the employment rate.
- Predicts continued declines for two decades.
- Fewer working people means slower growth.
Monetary Policy

- Intervention prevented collapse of the Money Supply.
- MB should not be confused with M2.

Net Profits are High

As share of GDP, Corporate Profits after tax are the highest they have been in 60 years. Actual taxes paid are the lowest share.
**Stocks**

As high profits and low interest rates would predict, stock prices are high again – even after adjusting for inflation.

**Recovery?**

- After falling by 35% since 2006 (62% in Las Vegas), housing prices have risen for 14 straight months: 16% nationwide, 27% in Las Vegas.
Causes of the Federal Budget Deficit?

• Tax cuts in 2001, 2003 reduced federal revenue by roughly $300 billion per year.
• Wars in Iraq and Afghanistan increased debt by roughly $3T dollars, and obligated us to pay future VA and related costs.
• Slow economy in 2001-2003, and then the Great Recession, reduced tax collections. Personal federal income tax fell to 6.3% of GDP in FY2010, the lowest share since 1950.

What Else Contributed?

• Pres. Bush’s Spring ESA ($150B), October 2008 TARP ($700B).
• Pres. Obama’s ARRA, payroll tax cuts added $1T more. A third of ARRA went to help states, a third went to tax cuts.
• States drained unemployment funds, borrowed from federal government. More retired early, went on disability, or became eligible for Medicare and social services.
• Rapid growth of healthcare costs over several decades, and an aging population that is living longer than originally predicted.
Shrinking Deficits

Federal budget deficit expected to fall to 2.8% by 2016, stabilizing the Debt/GDP ratio.
The Economy of the Silver State

- Gaming monopoly from 1930s to 1980s, funding “One Sound State” with low taxes, little need for educated workforce.
- In 1990s, California’s housing bubble spilled over the border, along with capital from elsewhere: Nevada began unsustainable construction boom, largest share in the nation.
- Housing bubble peaked in 2006, then collapsed; people stopped buying new houses, and the sector tied to construction and home sales collapsed.

What then for Nevada?

- Housing prices declined more in Nevada than in any other state, foreclosure and underwater mortgages rates highest.
- Construction collapse: unemployment rate became highest.
- Nevada was responsible for much more than our fair share of the financial crisis. National recession led to decline in gaming and leisure spending.
- Falling tax revenues forced state and local governments to impose austerity, though federal assistance helped offset cuts.
Employment in Nevada grew the fastest of any state in the nation, until the recession.

California has more or less tracked the nation for 25 years.

Nevada’s unemployment rate peaked at 14% in late 2010 – a year behind the nation.
Recovery in Nevada?

• Over last year, Nevada has added 18 thousand jobs, majority in food service, trade & transportation, and health care.  
   *(From 2000-2005 we added 100 thousand jobs annually.)*

• After declining for years, employment finally starting rising in construction and state government, but continued falling in local government, accommodations and casinos.

• Recession ended a year after the rest of the nation, but personal income and GSP has been flat since 2010.

As a share of GSP:

- Nevada has one of the very smallest state general funds.
- Nevada spends the least on public education.
After declining by 14% in FY2009 and 4% in FY2010, gaming win rose 3% in FY2011 and 1% more in FY2012. CY2012/2011 = +1.5%. Mostly Las Vegas. More competitive market, nationally and worldwide.

In Northern Nevada, however, the loss of the gambling monopoly has led to a 50% decline over the last decade.
After declining by 10% in FY2010, taxable sales rose by 6% in FY2011 and 8% more in FY2012.

By calendar year, sales in 2012 brought in 6% more than 2011.

Lessons for the Silver State

• **Housing bubbles and construction booms are dangerous**, duh; and can cause financial crises and balance sheet recessions.

• **Significant public investment in education** is the key to reinvention, but it takes a decade or two to start paying off.

• **Low corporate tax rates** may help attract outside investment, but tax revenues need to be adequate to fund education, public investment in infrastructure, and social services.

• It helps to be part of a **larger economy** that helps in bad times.

• If possible, the time for austerity is in the **boom, not the bust**.
International Trade is a major driver of our national economy, and increasingly important to our state economy.

Exports

- **The fastest-growing component of the economy**: not adjusting for inflation, merchandise exports have grown by 57% since hitting bottom in Jan. 2009, and by an average of 8.2% per year over the last decade.
- **Agricultural products** averaged 10.1% growth over the last decade, and now account for over 5% of exports.
- Part of this export growth fueled by a **weaker Dollar**.
In Summer 2008, and again in early 2012, the USD reached an all-time low against other major currencies.

European Threat to Export Growth

- **The EU is the largest importer of agricultural products**, even excluding intra-EU trade. **The U.S. is the largest exporter** if we exclude intra-EU trade.
- **Some countries** (Ireland, Spain) affected by a housing bubble and financial crisis **remain in deep recession**. Germany and others recovered quickly.
- **Recession exacerbated sovereign debt problems**, and countries that responded with austerity (UK) are growing more slowly.
- Recession exposed **basic design flaw in Euro system**, in which fiscal policies are national but limited by investor confidence, while monetary policy is joint and cautious. The Euro overvalues the exports of some countries, which offers competitive opportunities for U.S.A. but reduces growth.
Rising Exports to China

• China is the third largest importer of agricultural products, after the EU and US, and imports twice what it exports.

• China’s rapid growth has been fueled by:
  1. Movement of its rural population to the cities,
  2. High savings rates as people prepare for retirement,
  3. Government investment in infrastructure and education,
  4. Economic reform, exports, FDI, and the catch-up effect.

China’s stock markets crashed at the end of 2007, and never really recovered. Foreign stock markets mostly inaccessible. China’s many savers went looking for someplace else to put their money.
The Chinese Threat to Export Growth

- All this helped to create a **speculative housing bubble** in China’s largest cities, and both individuals and firms were buying. China’s banking system required more money down.
- Housing prices tripled from 2005 to 2009, vacancy rates began to grow.
- Tightening monetary policy to reduce inflation and speculation led to higher interest rates, bubble appears to have peaked in Summer 2011.
- Bank credit has tightened, and GDP growth has slowed from over 9% per year to an estimated 7%. This is barely fast enough to keep up with the movement of farmers to the cities.
- Urban consumers are spending less on furniture, but still need to eat.

Recovery

- Stabilization of housing is key ingredient for financial stabilization, consumption, and investment, and this has been more than enough to cancel out the negative effects of sequestration.
- Exports have helped drive recovery, but there are headwinds.
- Worries about another bubble in real estate are overblown, especially for Nevada, where prices still below long-run trend.
- Exit of baby boom from labor force will lead to lower GDP growth for next 10-20 years, and increased pressure on federal budget.